

ORIGINATOR: CHIEF FINANCE OFFICER

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SUBJECT: Mid-year Treasury Management Report 2026/27

Summary

1. This report presents the mid-year treasury management monitoring report for 2026/27 in line with CIPFA's Code of Practice on Treasury Management and the PCC's 2026/27 Investment and Treasury Management Strategy.
2. The report provides information on the treasury management activities for the PCC for the period 1 April 2026 to 30 September 2026.
3. Borrowing has not exceeded the Operational Boundary limit or Authorised limit for external debt as set in the PCC's 2026/27 Investment and Treasury Management Strategy.
4. An approved Counterparty list has been maintained in line with the strategy and there have been no credit rating downgrades that have resulted in counterparties being removed from the list during the period.

Recommendation

1. The Audit Committee are invited to consider the contents of the report.

1. Introduction

- 1.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management in the Public Sector (the Code) requires that the PCC receives a mid-year review of treasury activities in addition to the forward-looking Annual Investment and Treasury Strategy and backward-looking annual treasury report. The Annual Investment and Treasury Strategy for 2026/27 was approved by the PCC in January 2026.
- 1.2 The PCC operates a balanced budget, which broadly means income receivable during the year will cover expenditure payable and any planned movement on reserves. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.
- 1.3 The second main function of the treasury management service is the financing of the PCC's capital plans. These capital plans provide a guide to the borrowing need of the PCC, essentially the longer term cash flow planning to ensure the PCC can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to the PCC's risk or cost objectives.
- 1.4 As a consequence treasury management is defined as:

“The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”
- 1.5 The PCC has delegated responsibility for treasury management decisions taken within the approved strategy to the PCC's Chief Finance Officer. Day to day execution and administration of investment and borrowing decisions are undertaken by the Constabulary.
- 1.6 The PCC recognises the importance of monitoring treasury management activities, with regular reports being presented to the Audit Committee throughout the year.
- 1.7 This mid-year review provides commentary on economic conditions produced by MUFG Corporate Markets (the PCC's external treasury adviser) and details treasury activities for the period 1 April 2026 to 30 September 2026, including cash balances and cash-flow management, investment performance, counterparty management and long-term borrowing/debt management.

2. Cash Balances and Cash Flow Management

- 2.1 The PCC's cash and short-term investment balances support revenue and capital resources, such as general balances and earmarked reserves and the timing differences between the receipt and payment of monies required to meet the cost of PCC services and the capital programme. The average level of cash and short-term investment balances in the year-to-date totals £53.8m.
- 2.2 Cash and short-term investment balances are managed internally and have been invested in accordance with the PCC's approved Authorised Lending List.
- 2.3 A key objective of cash flow management is to minimise balances held in the PCC's bank accounts in order to ensure that the maximum interest is earned.
- 2.4 The PCC operates seven bank accounts. Cash balances across all seven accounts are aggregated and surplus cash balances are invested on a daily basis.
- 2.5 From 1 April 2026 to 30 September 2026 (excluding investments and repayments), monies received amounts to £143.6m while payments total £129.8m, resulting in an overall increase in cash balances of £13.8m.
- 2.6 By continuing to delay borrowing for capital purposes (Section 6) while at the same time actively managing levels of liquid cash, the PCC on occasions may need to borrow short-term from the money markets to cover daily liquidity. However there has been no short term borrowing in the review period.

3. Investment Performance

- 3.1 In accordance with the Code, it is the PCC's priority is to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the PCC's risk appetite.
- 3.2 At the 30th September 2026, the PCC held £56.5m of investments. The profile of these investments is shown below.

Institutional Sector	Liquid £m	Up to 3 months £m	Up to 6 months £m	Up to 9 months £m	Up to 12 months £m
Part Nationalised Banks	-	-	-	-	-
UK Banks	3.5	-	-	-	-
UK Banks with a non-UK ultimate parent	-	8.0	10.0	10.0	-
Non-UK Banks	-	5.0	5.0	-	-
Building Societies	-	-	5.0	-	-
Other*	10.0	-	-	-	-
Total	13.5	13.0	20.0	10.0	-

*Includes: Money Market Funds

A more detailed investment profile at 30th September 2026 is shown at Appendix 1.

3.3 The average interest rate earned for the year to date is 3.81%.

3.4 Gross interest earned for the period 1st April 2026 to 30th September 2026 was £1.019m.

4. Counterparty Maintenance

4.1 The PCC CFO is responsible for maintaining an Approved Counterparty List in accordance with the criteria as set out in the approved Annual Investment and Treasury Strategy 2026/27. Credit rating information is supplied by our treasury consultants on all active counterparties. Any rating changes, rating watches (notification of a likely change) and rating outlooks (notification of a possible longer-term change) are provided by our treasury consultants immediately they occur. A wide range of market information such as Credit Default Swap prices and share price is also taken into account. The Approved Counterparty List is therefore actively managed on a day-to-day basis and when an institution no longer meets the PCC approved counterparty criteria, it is immediately removed.

- There have been no credit rating downgrades during the period 1st April 2026 to 30th September 2026 that have resulted in counterparties being removed from the authorised counterparty list.

5. Long Term Borrowing/Debt Management

- 5.1 The PCC undertakes capital expenditure on long-term assets. This activity gives rise to the need to borrow. Part of the PCC's treasury management activity is to address this borrowing need, either through long term borrowing from external bodies (PWLB or commercial banks) or utilising temporary cash resources within the PCC pending long term borrowing.
- 5.2 In accordance with the approved 2026/27 Investment and Treasury Strategy, the PCC continues to delay new borrowing for capital purposes, using cash balances on a temporary basis to avoid the cost of 'carrying' debt in the short term. Delaying borrowing and running down the level of investment balances also reduces the PCC's exposure to investment counterparty risk.
- 5.3 At the 30th September 2026, the PCC's external borrowing (debt outstanding, excluding PFI and ROU Lease Liabilities) totaled £4.919m (PWLB)
- 5.4 The PCC's overall capital financing requirement (excluding PFI & ROU Leases) at 31.3.26 was £13.1m. The projected capital financing requirement per the 2026/27 MTFP at 31.3.27 is £19.2m. This represents unfunded capital expenditure for which approved borrowing can be drawn down. The PCC's CFO, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks identified in the economic forecast (Appendix 2).
- 5.5 The Public Works Loans Board (PWLB) provides a facility to restructure debt, including early repayment of loans and encourages local authorities to do so when circumstances permit. This can result in net savings in overall interest charges. Current circumstances do not suggest that refinancing existing PWLB debt would be economically prudent due to the significant repayment penalties. However prevailing PWLB interest rates continue to be monitored in order to identify repayment opportunities.
- 5.6 At no point during the period 1 April 2026 to 30 September 2026 has borrowing exceeded either the Operation Boundary Limit or the Authorised Limit for External Debt set in the 2026/27 Investment and Treasury Strategy.

6. Other

- 6.1 A report setting out the Capital Strategy will be included in the Budget and Medium Term Financial Plan 2027/31, which will be presented to the PCC for approval early in 2027.

7. Conclusion

- 7.1 The Mid-Year Treasury Management Monitoring Report 2026/27 provides information on the Treasury Management activities of the PCC for the period 1st April 2026 to 30th September 2026.

8. Recommendation

- 8.1 It is recommended that Audit Committee reviews the Mid-Year Treasury Management Monitoring Report 2026/27.

Appendix 1

CURRENT INVESTMENTS				
Start	Repay	Borrower	Rate	Amount
06/07/2026	06/01/2027	Al Rayan Bank	4.15%	£10,000,000
07/07/2026	07/01/2027	DBS Bank Ltd	4.07%	£5,000,000
07/07/2026	08/02/2027	Goldman Sachs Intl	4.160%	£5,000,000
07/07/2026	08/02/2027	Goldman Sachs Intl	4.160%	£5,000,000
17/08/2026	17/02/2027	Skipton BS	3.89%	£5,000,000
10/09/2026	10/11/2026	DBS Bank Ltd	3.92%	£5,000,000
03/07/2026	02/10/2026	National Bank of Kuwait	3.91%	£8,000,000
07/09/2026	Instant Access	Lloyds Bank	3.51%	£3,500,000
09/04/2026	Instant Access	CCLA	3.87%	£2,000,000
15/06/2026	Instant Access	CCLA	3.87%	£5,000,000
15/07/2026	Instant Access	CCLA	3.87%	£3,000,000
				£56,500,000

MUFG Corporate Markets Economic Update – October 2026

The first half of 2026/27 (April to September) saw:

- Continued resilience in the face of the ongoing energy shock, with real GDP up 0.4% m/m in July, following on from GDP of 0.5% q/q (1.4% y/y) for the quarter ending 30 June 2026.
- The 3myy rate of average earnings growth excluding bonuses remained stable throughout the period under review, initially stagnating at 3.4% in April and more latterly holding steady at 3.5% in July.
- CPI inflation stuck at 2.8% in May, but is now ticking upwards, standing at 3.1% in August and forecast to rise to 4.3% by January 2027.
- The Bank of England left interest rates unchanged at 3.75% although it intimated in its September meeting that rates will be hiked in November or December if a resolution to the conflict in the Middle East is not forthcoming before then.
- The 10-year gilt yield fluctuated between 5.43% and 4.69%, ending September at 5.43%.
- The economy has continued to surprise to the upside, with real GDP growth of 0.6% q/q for the period January to March, followed by a resilient 0.5% q/q rise through to the end of June. That has been followed by another strong monthly increase of 0.4% m/m in July. That marked the biggest rise since the Middle East conflict started and suggests the resilience of the economy in the first half of the year continued into the early stages of the second half. That rise in July was broad-based with services output up by 0.4% m/m, industrial production 0.2% m/m higher and construction output rising by 0.1% m/m. The Office for National Statistics also noted that businesses reported stronger activity related to AI and cloud computing.
- If real GDP were flat in both August and September, a further healthy rise of 0.6% q/q is anticipated. However, the economy's prolonged resilience is unlikely to last as the drag from rising energy prices (the January energy cap is projected to increase by c20%) and borrowing costs will be felt before long.
- The fall in the composite Purchasing Manager Index (PMI) from 49.7 in May to a 14-month low of 49.4 in June was entirely driven by services activity. Indeed, the services activity PMI fell from 49.3 to a 41-month low of 48.7 due to rising costs and political uncertainty weighing on consumer confidence. That weakness was

partly offset by a rise in the manufacturing output for a third consecutive month but that was due to fears of shortages causing businesses to build stocks. Overall, the composite PMI suggested the strong start to the year would be followed by tepid growth at best.

- By September, the composite PMI stood at 52.0. While this was still indicative of expanding activity, it was weaker than August's 52.5 and the lowest level in three months, suggesting the latest leap in energy prices and the prospect of another tax-raising Autumn Budget are weighing on activity. Within the composite report, employment contracted (i.e., a reading below 50) for the twenty-fourth consecutive month while higher fuel and payroll costs contributed to the sharpest rise in prices charged since May. The services PMI fell from 52.5 to 52.1, reportedly due to subdued domestic economic conditions and ongoing geopolitical uncertainty. Meanwhile, weak consumer demand constrained production, bringing the manufacturing output subcomponent balance down from 52.1 to a six-month low of 51.5. The press release also noted that weaker consumer demand was partly offset by AI investment and greater defence spending.
- Retail sales volumes were up in every major category except "other stores" and fuel in August, leaving the headline figure up 0.5% m/m. That fully reversed the 0.5% m/m decline in July and left the level of retail sales 2.4% higher than last August. Even if retail sales volumes were flat in September, volumes for the quarter as a whole would still rise by 0.5% q/q, higher than the 0.2% q/q rise in the previous quarter. August's figure suggests that other factors are offsetting the drag on real incomes from higher energy prices and borrowing costs, or that households remain able and willing to reduce their saving rate to sustain recent spending growth. That said, with inflation yet to peak, the biggest drag on households' real income has yet to come.
- The public finances have been challenged for several months now. Public sector net borrowing of £23.3bn in May was above the Office for Budget Responsibility's (OBR's) forecast of £17.7bn and £5.4bn above the corresponding figure last year. The weak performance in May was mainly due to the strength of government spending, as the rise in Retail Prices Index inflation in March meant debt interest payments were £4.1bn higher than in May 2025, £3.3bn higher than the OBR anticipated in March and the highest in any May on record. Tax receipts of £85.5bn were also below OBR predictions.
- More recently, public sector net borrowing of £18.3 billion in August was once again higher than the OBR's forecast of £14.8 billion. It also marked the second highest August borrowing figure since records began in 1993. At £12.4 billion, current borrowing (i.e., excluding investments) which is important for the Chancellor's fiscal mandate, was also above the OBR's forecast of £10.4 billion.

Higher central government tax receipts were not enough to offset the effect of higher government spending. Central government expenditure overshoot the OBR's forecast by £2.3 billion, partly due to higher inflation pushing up debt interest payments and government spending on public services.

- Regarding employment, the latest PAYE employment figure for August saw a 26,000 fall, leaving employment 95,000 lower than before the start of the Iran War in February and 0.5% lower than a year ago. The number of job vacancies continued to fall, edging down from 706,000 in the three months to July to 702,000 in the three months to August. While alternative measures of employment show a slightly stronger picture, the unemployment rate stayed at 4.9% in July for the fourth consecutive month.
- That recent further weakening of the labour market continues to weigh on pay growth. The 3myy growth rate of average earnings including bonuses eased from 4.2% in June to 3.9% in July entirely off the back of a slowdown in private sector bonus growth. By contrast, a jump in public sector bonus growth meant that total public sector pay growth rose from 6.2% to 6.6%. The timelier HMRC median PAYE measure of pay tells a similar story, with the 3myy growth rate falling from 4.5% in July to a seven-month low of 4.1% in August. That points to a further fall in average earnings growth from 3.9% to around 3.6%.
- The knock-on impact from surging energy prices is now being felt, pushing CPI inflation up from 2.9% in July to 3.1% in August. That increase was entirely due to the 6.9% m/m rise in fuel prices, which lifted annual fuel inflation from 15.3% to 23.0%. Even so, higher energy costs do not yet seem to be boosting other items of the CPI just yet. For example, food and drink inflation stayed at 1.3%. That said, the combination of the current levels of energy prices, with brent crude still around \$100pb, and the eventual "first-round" effect of businesses passing on some of their higher energy costs will likely result in CPI inflation rising to around 3.6% in September and to a peak of about 4.3% in January based on forecasts from Capital Economics.
- Regarding Bank Rate, the Bank of England will want to steer clear of allegations of taking too long to act as inflation picks up, and in September intimated that despite a 6-3 vote against increasing Bank Rate to 4%, four of the majority who voted for no change are minded to vote for a rate hike in November or December if the conflict in the Middle East remains unresolved.
- April through to September brought more volatility for the gilt market. For example, after ending March at 4.92%, the 10-year Gilt shot up to 5.18% in mid-May, its highest level since 2008. Its movement since has reflected sentiment in the

Middle East, falling back to 4.7% in June but finishing September at 5.43% as US/Iran relations remain sour.

- The FTSE 100 started April below 10,200, below its record high of around 10,900 in late February. Nonetheless, the index surged to just shy of that level in late July. More recently, it has struggled, ending September at 10,606. Moreover, it materially underperformed the broader more domestic-focused FTSE 250 and most other international indices over this period, weighed down by weightings towards energy, mining, financials and pharmaceuticals and lack of exposure to tech stocks which generally outperformed globally.

MPC meetings: 30 April, 18 June, 30 July, 17 September 2026

- There were four Monetary Policy Committee (MPC) meetings held in the first half of the financial year. In April, the Committee voted 8-1 to keep rates at 3.75%, with one dissenter voting for 4%. By June, the split had become 7-2, with concerns that rising energy prices, emanating from the conflict in the Middle East, would lift inflation and potentially give rise to second round inflation effects reflected in higher wages.
- As the year has progressed, the split has grown further. The July and September meetings both recorded a 6-3 split, with Greene, Mann and Pill voting for a hike in rates to 4% at both meetings. As noted, several other members of the committee have intimated that they are likely to vote for an increase in November or December if there is no resolution to the conflict in the Middle East.

2.2 Interest Rate Forecasts

The Authority has appointed MUFG Corporate Markets as its treasury advisors and part of their service is to assist the Authority to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the Standard Rate minus 20bps) which has been accessible to most authorities since 1 November 2012.

MUFG Corporate Markets' latest forecast on 21 September sets out a view that short, medium and long-dated interest rates will eventually fall back over the next year or two, although in the near-term there is an anticipated increase in Bank Rate to 4% given the upward influences on inflation primarily emanating from energy price shocks driven by events in the Middle East. The challenging UK fiscal backdrop provides some further upside risks to the medium to longer part of the curve, which has also been revised higher in the near-term.

It is noted that the broader market sentiment has focussed on Bank Rate increasing to a peak between 4.5% and 4.75%, but the central view of MUFG Corporate Markets is that

a backdrop of a significant increase of 20%+ in the energy price cap likely in January, and with mortgage rates also shifting upwards, households are unlikely to be able to support the economy as strongly as they have done so in the first half of the financial year.

MUFG Corporate Markets Interest Rate View 21.09.26												
	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28	Mar-29	Jun-29	Sep-29
BANK RATE	4.00	4.00	4.00	3.75	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	4.00	4.00	4.00	3.80	3.50	3.30	3.30	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	4.20	4.10	4.00	3.80	3.70	3.50	3.40	3.40	3.40	3.40	3.40	3.40
12 month ave earnings	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.70	3.70	3.70	3.70	3.70
5 yr PWLB	5.60	5.60	5.30	5.10	4.70	4.50	4.50	4.40	4.40	4.30	4.30	4.30
10 yr PWLB	6.00	5.90	5.60	5.40	5.00	4.80	4.80	4.70	4.70	4.60	4.60	4.60
25 yr PWLB	6.50	6.40	6.10	5.90	5.60	5.30	5.30	5.30	5.30	5.30	5.20	5.20
50 yr PWLB	6.10	6.10	5.80	5.50	5.30	5.10	5.00	5.00	5.00	5.00	4.90	4.90